

**REPORT OF THE AUDIT OF THE  
GALLATIN COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2004**



**CRIT LUALLEN  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable George W. Zubaty, Gallatin County Judge/Executive  
Honorable Nelson Brown, Gallatin County Sheriff  
Members of the Gallatin County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Gallatin County, Kentucky, for the year ended December 31, 2004.

We engaged Tichenor & Associates, LLP, to perform the audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Gallatin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE GALLATIN COUNTY SHERIFF**

**For The Year Ended  
December 31, 2004**

Tichenor & Associates, LLP, has completed the Gallatin County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$4,679 from the prior year, resulting in excess fees of \$32,689 as of December 31, 2004. Revenues increased by \$3,726 from the prior year and expenditures increased by \$5,829.

#### **Report Comment:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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**TICHENOR & ASSOCIATES, LLP**  
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The Honorable George W. Zubaty, Gallatin County Judge/Executive  
Honorable Nelson Brown, Gallatin County Sheriff  
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Gallatin County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2005 on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

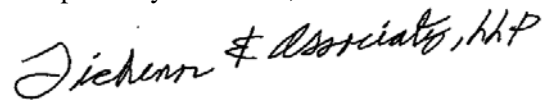
The Honorable George W. Zubaty, Gallatin County Judge/Executive  
Honorable Nelson Brown, Gallatin County Sheriff  
Members of the Gallatin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Gallatin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed –  
September 29, 2005

GALLATIN COUNTY  
NELSON BROWN, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State - Kentucky Law Enforcement Foundation Program Fund		\$	11,797
State Fees For Services:			
Finance and Administration Cabinet	\$	2,888	
Cabinet For Human Resources		6,006	
Forfeiture Payments (HB 413)		<u>4,102</u>	12,996
Circuit Court Clerk:			
Sheriff Security Service			24,045
Fiscal Court			45,000
County Clerk:			
Delinquent Taxes		540	
Election Commission		<u>455</u>	995
Commission On Taxes Collected			160,789
Fees Collected For Services:			
Auto Inspections		5,635	
Accident and Police Reports		758	
Serving Papers		13,167	
Carrying Concealed Deadly Weapon Permits		2,190	
Tax Fee and Late Fee		<u>22,040</u>	43,790
Interest Earned			534
Borrowed Money:			
State Advancement			<u>76,898</u>
Total Revenues		\$	376,844

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY  
 NELSON BROWN, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2004  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 116,327

Part-Time Salaries 23,245

Employee Benefits-

Employer's Share Social Security 14,236

Contracted Services-

Advertising 2,012

Materials and Supplies-

Office Materials and Supplies 2,325

Uniforms 2,566

Auto Expense-

Gasoline 14,478

Other Charges-

Telephone 7,499

Law Enforcement 3,896

Dues 300

Postage 2,450

Bond 793

Carrying Concealed Deadly Weapon Permits 1,150

Miscellaneous 2,976

Capital Outlay-

Office Equipment 530

Vehicles 14,461 \$ 209,244

Debt Service:

Lease Purchase 792

State Advancement 76,898 77,690

Total Expenditures

\$ 286,934

Net Revenues

\$ 89,910

Less: Statutory Maximum

57,221

Excess Fees Due County for 2004

\$ 32,689

Payments to Fiscal Court - January 31, 2005

32,689

Balance Due Fiscal Court at Completion of Audit

\$ 0

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent for the first six months and 22.08 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

Note 4. Lease

The office of the County Sheriff was committed to a lease agreement with Toshiba Business Solutions for a copier. The agreement requires a monthly payment of \$66 for 60 months to be completed on May 23, 2008. The total remaining balance of the agreement was \$2,706 as of December 31, 2004.

GALLATIN COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2004  
(Continued)

Note 5. 2001 Tax Escrow Account

The 2001 tax escrow account had a deposit of \$197 due the tax account for settlement of 2001 taxes. The account earned \$10 in interest in 2004. The remaining balance of \$2,167 was presumed abandoned and turned over to the Kentucky State Treasurer on April 12, 2005.

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COMMENT AND RECOMMENDATION



GALLATIN COUNTY  
NELSON BROWN, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2004

INTERNAL CONTROL – REPORTABLE CONDITION

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We recommend that the following compensating controls be implemented to offset these internal control weaknesses.

Cash receipts by mail should be received and recorded by someone separate from the duties of handling and/or posting cash receipts to the ledger. At a minimum, only one person should be designated to receive and open mail. The Official could greatly increase the level of compensating controls by requiring mandatory vacations and performing surprise cash counts.

The Official should periodically, compare the daily bank deposit to the daily checkout sheet and then compare the daily check out sheet to the receipts ledger. Any differences should be reconciled. The Official should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger.

The Official should periodically, and on a surprise basis, compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Official should document this review by initialing and dating the bank reconciliation and the balance in the checkbook.

The Official should compare the quarterly financial report to the receipts and disbursements ledgers for accuracy. The Official should also compare the salaries listed on the quarterly report to the individual earnings records. Any differences should be reconciled. The Official should document this review by initialing and dating the quarterly financial report.

The Official should periodically compare invoices to payments. The Official should document the review by initialing and dating the invoices.

*Sheriff's Response: No response.*

PRIOR YEAR:

Nothing reported.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
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The Honorable George W. Zubaty, Gallatin County Judge/Executive  
Honorable Nelson Brown, Gallatin County Sheriff  
Members of the Gallatin County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Gallatin County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated September 29, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

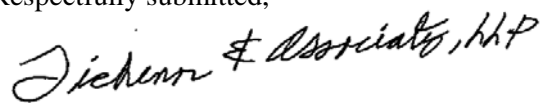
Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Gallatin County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matter that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed –  
September 29, 2005



